Policy Statement:

In accordance with the laws of the State of Maine, "The Board of Trustees, in consultation with the Chancellor, shall be the governing and planning body of the University System and in addition shall have responsibility for preparing and approving the operating and capital budgets of the University System ..." In accordance with the Board of Trustees Bylaws, "The Board of Trustees shall, in consultation with the Chancellor, be responsible for the preparation and approval of all operating and capital budgets, together with University System requests for appropriations, bond issues, and statutory changes, and for their presentation to executive or legislative branches of Maine government in accordance with the provisions of the Maine statutes."

One of the principal "authorities" that is widely delegated throughout the System is the right to commit University System dollars, either directly through the approval of a specific purchase or indirectly by appointment authority or other commitments. The commitment of University operating funds, however, is made within the limits of a budget approved by the Board of Trustees.

In further accordance with the laws of the State of Maine, the Board of Trustees also establishes competitive procurement as the standard procurement method of the University and authorizes the Treasurer to promulgate such policies and practices as the Treasurer determines necessary to implement that standard, including regarding the conditions under which competitive procurement may be waived.

Operating Budgets

The University System has two principal categories of operating budgets - (1) Educational and General (E&G) budgets are prepared for educational activities which are supported by the state appropriation, by student tuition, and by other miscellaneous unrestricted revenue. (2) Auxiliary Enterprise budgets are prepared for activities such as bookstores, residence halls, and dining services. Auxiliary Enterprises are self-supporting—i.e., supported entirely by fees charged to users. Any year-end surpluses or deficits in auxiliary enterprise operations are carried forward to the next year in appropriate reserve accounts for the purpose of supporting the auxiliary operation.

The Board of Trustees annually approves the overall E&G and Auxiliary Enterprise budgets as well as rates for tuition, fees, room, and board. Compensation comprises a significant portion of
the annual operating expense budget with the remainder covering costs in areas such as purchased services, supplies, utilities, library materials, and maintenance. To increase assurance that specific expenditures are directly related to the System’s mission and activities, the Board, effective for the FY2014 E&G and Auxiliary Enterprise budgets, specifically approved an annual budget for contributions and for travel, meals and entertainment as required by the Maine statue. In addition, the Board of Trustees receives periodic reports on such expenditures.

I. Policy Statement

The Charter of the University of Maine System (Private & Special Laws 1985 chapter 532, as amended) vests the Board of Trustees, in consultation with the Chancellor, as the governing and planning body of the university with responsibility for preparing and approving the operating and capital budgets of the university. In fulfillment of these duties, the Charter further requires the Board of Trustees provide sound financial management of the system, exercise prudent stewardship of assets, and plan strategies for programs and allocation of resources that most effectively serve the educational needs of the citizens of this state.

The primary fiduciary responsibility for the operating and capital budgets of the university, ongoing financial management of the system, prudent stewardship of assets, and strategic planning related to programs and the allocation of resources rests with the Board of Trustees and, as delegated by state law and Board of Trustees policy, its statutory officers – the Chancellor and the Treasurer. This fiduciary responsibility is also shared by the presidents of the various institutions within the parameters approved by the Board of Trustees and the Chancellor. Campus presidents have significant latitude to manage the approved budget for their respective campus in support of the institutional mission.

II. Definition of Terms

**Allocation.** An allocation of Education & General, Auxiliary or Designated Fund by the Board of Trustees to a campus or university governance.

**Allotment.** An allotment of funds allocated to a budget program by semester for the fiscal year. The fall semester will run from July 1st through December 31st and the spring semester will run from January 1st through June 30th.

**Budget Order.** An administrative document approved by the Treasurer to adjust the unified unrestricted operating budget in accordance with this policy.

**Budget Program.** Each campus budget consists of three primary budget programs based on the funding source: Education & General, Auxiliary, and Designated. The university governance budget consists of two primary budget programs: Education & General and Designated. Each primary budget program may include one or more sub-budget programs to which the Board of Trustees allocates funds for a specific purpose.

**Budget Transfer.** An administrative document approved by a campus president to adjust the unified unrestricted operating budget in accordance with this policy.
**Campus.** A campus means one of the seven universities of the University of Maine System (UMS): University of Maine, University of Maine at Augusta, University of Maine at Farmington, University of Maine at Fort Kent, University of Maine at Machias, University of Maine at Presque Isle, and University of Southern Maine.

**Full-Time Equivalent (FTE) Employee.** An FTE employee means one or more employees, which, in combination, are counted as the equivalent of one full-time employee.

**Line Item.** An allocation of Education & General, Auxiliary or Designated funds by the Board of Trustees to a campus or university governance by one of the following line items: 1) Personnel – includes employee salary, wages and benefits; 2) All Other – includes all non-personnel costs such as general operating expenses, utilities, travel, etc, excluding items meeting capital expenditures criteria; or 3) Capital & Financing Activities – includes expenditures for debt service principal and equipment with a unit cost of $5,000 or more, transfers to capital planning reserves, and transfers to the plant fund for the acquisition of real property, construction and certain repairs.

**Unified Unrestricted Operating Budget.** The unified unrestricted operating budget is made up of 1) the Education & General Budget supported by tuition, state appropriation and other miscellaneous Education & General revenues; 2) the Auxiliary Budget supported by residence and dining hall fees and other miscellaneous Auxiliary revenues; and 3) the Designated Fund Budget that support the general operations of the UMS. Certain restricted funds, such as grants and contracts, are not included in the unified unrestricted operating budget as they are restricted for specific purposes.

**University Governance.** University governance means the administrative unit with decision-making authority for the University of Maine System that serves the Board of Trustees.

**Work Plan.** An administrative document that maps the expenses of each campus (and budget program) in allotments by the semester in which those expenses are expected to be incurred.

### III. Budget Process

Development of the budget consists of an iterative planning, review, and revision process among and between the Chancellor and Board of Trustees, the Treasurer and the campus presidents, which is overseen by the Treasurer. The unified unrestricted operating budget is developed in four iterative steps:

1. **Formulation of the budget request for each respective campus by its president;**

2. **Development of the unified unrestricted operating budget by the Treasurer under the direction of the Chancellor;**

3. **Review and amendment as appropriate, of the unified unrestricted operating budget by the Finance, Facilities and Technology Committee for recommendation to the Board of Trustees; and**
IV. Formulation of the Unified Unrestricted Operating Budget

A. Campus Request

**Format.** In accordance with the guidelines provided by the Treasurer, the president of each campus prepares and presents a balanced budget request for the next fiscal year identifying the individual budget programs within each campus, including the proposed spending levels and number of full-time equivalent positions authorized by budget program.

**Timing.** In January of each year, the president of each campus submits their respective budget request to the Treasurer.

B. Treasurer; Preparation of Unified Budget

**Compilation.** The Treasurer compiles the individual campus and university governance requests into a single budget document.

**Adjustment.** Under the direction of the Chancellor, the Treasurer develops the unified unrestricted operating budget for the University of Maine System by adjusting the individual campus and university governance requests as appropriate to reflect operational priorities and to ensure the budget is in balance.

**Restrictions.** In developing the unified unrestricted operating budget the Treasurer is bound by various statutory and Board Policy restrictions:

1. The budget must be balanced;
2. The budget must allocate sufficient funds to pay the interest and installments of principal on all bonded debt created on behalf of the UMS as these payments become due;
3. The budget must separately identify the annual budget for travel, meals, and entertainment costs as required by state law; and
4. The budget must separately identify the annual budget for contribution expenses, such as membership dues & fees, gifts, donations, and sponsorships as required by state law.

**Format.** The unified unrestricted operating budget must separately identify individual campuses and university governance with their respective proposed spending levels for the next fiscal year by budget program, and within each budget program the total number of positions authorized (FTE) and the spending levels by line item.

**Timing.** In March of each year, the Treasurer submits the unified unrestricted operating budget to the Finance, Facilities and Technology Committee.
C. Finance, Facilities and Technology Committee Review; Recommendation

**Review; Recommendation.** In March of each year, the Finance, Facilities and Technology Committee reviews the unified unrestricted operating budget, amends as appropriate, and forwards the recommendation to the Board of Trustees.

D. Board of Trustees Approval

**Approval.** In May of each year, the Board of Trustees reviews, amends as appropriate, and approves the unified unrestricted operating budget.

V. Budget Monitoring and Adjustments

There are many events and conditions that can “unbalance” the budget including but not limited to: decreases in revenues versus projections; increases in expenditures versus projections; and changes in need. Therefore, adhering to a balanced budget requires procedures for monitoring and adjusting the budget during the current fiscal year.

A. Revenue Shortfalls

**Notice.** A reduction in the projected revenue by semester for a campus may create an unbalanced budget. The Treasurer is required to provide written notification to the Chancellor, the Board Chair, and the Chair of the Finance, Facilities and Technology Committee when the revenues of a campus are not expected to meet the expenditures authorized by the Board of Trustees.

**Amended Budget.** In consultation with the campus president and the Chancellor, the Treasurer must:

1. Approve via a budget order a revised campus budget submitted by the president that brings expenditures back in line with revenues if campus resources permit; or

2. Prepare a supplemental unified unrestricted operating budget that brings the campus and UMS budgets back into balance. The amended budget will be reviewed and further amended as appropriate by the Finance, Facilities and Technology Committee and its recommendation forwarded to the Board of Trustees for review, amendment as appropriate, and approval at the next scheduled meeting of the Board of Trustees.

B. Oversight of Expenditures

**Work Plans.** Each campus president creates annual work plans based on the unified unrestricted operating budget as approved by the Board of Trustees. The work plans are submitted to the Treasurer for approval via budget order. These work plans map the expenses of each campus (and budget program) in allotments by the semester in which those expenses are expected to be incurred. These allotments are the basis by which the Treasurer authorizes expenditures.
**Budget Orders.** All Budget Orders must be approved by the Treasurer. Budget Orders, in addition to authorizing the initial work plans, provide the Treasurer a certain level of flexibility in managing allocations and the allotment of allocations efficiently and effectively while allowing the Board of Trustees to fulfill its oversight duties. They are the mechanisms for transfers to:

- Increase the fall semester’s spending by reducing the spring semester’s allotment;
- Increase the spring semester’s spending by using the unencumbered balance forward from the fall semester;
- Increase revenue and expenditure budgets to reflect revenue above budget and associated expenses;
- Decrease revenue and expenditure budgets to reflect revenue shortfalls;
- Transfer funds between budget programs within a campus;
- Transfer funds between line item categories within a budget program; and
- Allocate unrestricted net position for use in the current fiscal year.

Review of Budget Orders is one of the key mechanisms available to the Treasurer to monitor the spending plans of the campuses to ensure that they are in accordance with the budget. Such a review may alert the Treasurer to any significant deviations from the original work plans and the intent of the Board of Trustees. Budget Orders are effective upon signing by the Treasurer.

**Exceptions to the Budget Order Requirement: Budget Transfer.** A president of a campus may approve the transfer of funds from the Personnel to the All Other line item category within a budget program for the purpose of funding professional services to cover a vacancy in an authorized position. A president of a campus may also approve the transfer of funds from the All Other to the Personnel line item category within a budget program to fund adjunct faculty or other limited period positions expiring no later than three months after the end of the current fiscal year. Notice of the budget transfer must be provided to the Treasurer.

**Unrestricted Net Position.** Absent specific Board of Trustees approval, the use of unrestricted net position must be approved by the Treasurer to provide a certain level of flexibility in managing the allocation of unrestricted net position efficiently and effectively while allowing the Board of Trustees to fulfill its oversight duties.

**Exceptions to the Approval of Unrestricted Net Position: Budget Transfer.** During a fiscal year, a president of a campus may approve a total budget transfer of up to 5% or $500,000, whichever is less, of the campus’ unrestricted net position. Notice of the budget transfer must be provided to the Treasurer.

**VI. Approval of Student Charges**

The Board of Trustees annually approves rates for tuition, fees, room, and board.
VII. Restricted Project Budgets

In addition to the E&G and Auxiliary Enterprise annual operating budgets, Universities have restricted budgets for grants, contracts and gifts. Since many restricted budgets, such as grants and contracts, are for time periods that may span multiple fiscal years, these budgets are “project based” rather than annual. The terms of the donor/sponsor restriction along with the available balance govern expenditures, rather than an annual Board-approved budget process.

VIII. Capital Budgets

Capital assets purchased, constructed, or donated that have a useful life exceeding one year and that meet or exceed University of Maine System established cost thresholds will be capitalized. Thresholds for determining capitalization are established for major classes of assets, ranging from land and land improvements at any cost, to equipment costing $5,000 or greater, up to new construction and building improvements costing $50,000 or greater.

Capital budget items that have a total cost of $500,000 or more require advance approval by the Board of Trustees unless they meet the equipment exception discussed in subsequent paragraphs. Capital budget items include:

- Capitalizable costs such as the purchase/construction of land, buildings, building renovations, software (purchased or developed), and an individual piece of equipment (purchased or fabricated).

- Noncapitalizable costs for the repair or replacement of failed or failing building components as necessary to return a facility to its currently intended use; to prevent further damage; or to make it compliant with changes in laws, regulations, codes, or standards.

When equipment expenditures of $500,000 or more are funded primarily by grants, the expenditures will be in accordance with the related award documents and budgets, rather than an annual budget and do not require Board approval except under the following circumstances:

- **Equipment to be used in operations:** Board approval is required regardless of funding source when equipment costing $500,000 or more will be used in general operations, thereby requiring that depreciation be funded in the annual E&G budget to support ongoing maintenance and eventual equipment replacement.

- **Mixed source funding:** Board approval is required when University or other funds totaling $500,000 or more contribute to the acquisition of grant funded equipment.

Projects in the capital budget will include a brief description of the project, a justification for the project, estimated expenditures by funding source, and an estimate of annual operating costs (e.g., utilities, maintenance, planned renewal of components, depreciation) for the project after it is completed. While a capital project subject to Board approval is active, project status reports will be provided at each regular meeting of the Board of Trustees.
The expenditure approved by the Board for a project may not be exceeded without the advance approval of the Board, except that variations of up to 10 percent of the amount approved by the Board and other such changes in project scope, scale or funding sources, may be approved by the Chancellor. Any changes approved by the Chancellor shall be reported to the Board.

In emergency or other extenuating circumstances that do not permit advance consideration by the Board, the Chancellor may approve more substantial changes to a project upon consultation with the Executive Committee of the Board and the consensus of the majority of members present.

Funding for the capital budget may come from one or more sources. The more common sources of funds for the capital budget are: State revenue or general obligation bonds; State appropriations; grants or contracts; University bonds, reserves, or internal borrowing; private fund raising; student fees or the allocation or reallocation of University funds. As the Auxiliary Enterprise is supported entirely by fees charged to users, any Auxiliary Enterprise capital budget item funded by bonds or other loans must be repaid as a part of the Auxiliary Enterprise operating budget.

Campuses may borrow against their reserves at a prudent level. Additionally, internal loans may be available when the System has debt capacity and the campus has borrowing capacity.

**IX. Competitive Procurement**

In accordance with the laws of the State of Maine, the Board of Trustees establishes competitive procurement as the standard procurement method of the University and authorizes the Treasurer to promulgate such policies and practices as the Treasurer determines necessary to implement that standard, including regarding the conditions under which competitive procurement may be waived.

**Related documents:**

- UMS Board of Trustees Policies:
  - Section 703 Tuition
  - Section 704 Student Fees
  - Section 801 Acquisition of Real Property

- Administrative Practice Letters:
  - Section I-G.2: General Accounting for Capital Assets
  - Section III-A: Institutionally Designated Account Guidelines
  - Section III-C: System Internal Loans
  - Section III-F: Auxiliary Enterprises
  - Section IV-A: Accessibility of University Programs. Services and Facilities
  - Section VIII-B: Restricted Account Guidelines

Delegation of Board of Trustee Authority to the Finance, Facilities and Technology Committee Matrix